

Message Text

CONFIDENTIAL

PAGE 01 SAIGON 09117 01 OF 04 101242Z

42

ACTION EA-14

INFO OCT-01 AID-20 EB-11 FSI-01 PM-07 INR-10 IO-14 L-03

NSAE-00 NSC-07 PA-04 RSC-01 DRC-01 DPW-01 PRS-01

OMB-01 SS-20 SSO-00 INRE-00 ISO-00 /117 W

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O R 101033Z JUL 74

FM AMEMBASSY SAIGON

TO SECSTATE WASHDC IMMEDIATE 6624

INFO AMEMBASSY BANGKOK

AMCONSUL BIEN HOA

AMEMBASSY BUDAPEST

AMEMBASSY CANBERRA

AMCONSUL CAN THO

AMCONSUL DANANG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMCONSUL NHA TRANG

AMEMBASSY PARIS

AMEMBASSY PHNOM PENH

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USIA WASHDC

AMEMBASSY VIENTIANE

AMEMBASSY WARSAW

AMEMBASSY WELLINGTON

USDEL JEC PARIS UNN

CIA

DIA

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JUSMAAG

WHITE HOUSE

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PAGE 02 SAIGON 09117 01 OF 04 101242Z

CINCPACFLT

CINCUSARPAC
DEPCHIEF JUSMAAG UDORN
AMEMBASSY TEHRAN
USDAO/SAIGON
AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 1 OF 4 SAIGON 9117

EO 11652: GDS
TAGS: PINT PFOR ECON VS
SUBJ: EMBASSY SAIGON'S MISSION WEEKLY, JULY 4-10, 1974

BANGKOK ALSO PASS OSA; DEPT ALSO FOR AID/W; CINCPAC FOR POLAD;
DOD FOR USAJFKCMA ATTN: ATCS-WL-DSA

THE WEEK IN SUMMARY

- THE CEASEFIRE
- DEMOCRACY PARTY AFFAIRS
- A LEADING MODERATE OPPOSITIONIST COMMENTS
- THIEU VISITS MR-1
- NGUYEN VAN NGAN TO LEAVE SVN
- MUNICIPAL/PROVINCIAL COUNCIL ELECTIONS JULY 14
- ANTI-FVN "VATICAN REPORT" BY CATHOLIC PRIEST APPARENTLY AS FAKE
- SOME MONTAGNARD DISSIDENCE REPORTED
- SOME HOA HAO RADICALS CONTINUE TO HOLD/OUT OVER ARMS ISSUE
- "MARTELL CONVOY" TRIAL CONCLUDES
- MR-1 STAFF POSITION CHANGES
- FVN REACTION TO US-USSR COMMUNIQUE
- TRAVELS OF THE FOREIGN MINISTER
- GVN RELEASES THAI FISHERMAN
- NEW RVN EMBASSIES ESTABLISHED IN SAUDI ARABIA AND JORDAN
- MILD PRICE EFFECT OF ECONOMIC MEASURES
- DEVALUATION
- BLACK MARKET DOLLAR PREMIUM HOLDS
- FIRST HALF PRICE TRENDS

I. INTERNAL

A. THE CEASEFIRE

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PAGE 03 SAIGON 09117 01 OF 04 101242Z

IN MR-1 CEASEFIRE VIOLATIONS WERE AT THEIR LOWEST LEVEL SINCE EARLY APRIL. GVN CASUALTIES DECLINED ONLY SLIGHTLY, HOWEVER, DUE MOSTLY TO MINING INCIDENTS. ENEMY CASUALTIES WERE UP DUE TO A SUCCESSFUL GVN OPERATION IN QUANG TIN. THERE WERE MANY MINOR CONTACTS AND ENEMY SUPPLY CACHES DISCOVERED DURING THE OPERATION. THE RAILWAY BETWEEN DANANG AND HUE, CLOSED FOR FOUR WEEKS, HAS BEEN REOPENED.

THE NUMBER OF INCIDENTS IN MR-2 DECLINED AS DID GVN CASUALTIES. THE NUMBER OF AIR STRIKES DROPPED MARKEDLY. A PF PLATOON IN BINH DINH SUCCESSFULLY DEFENDED ITSELF FROM ATTACK BY A COMMUNIST COMPANY, KILLING 14 ENEMY SOLDIERS. THERE ARE REPORTS THAT THE HUNGARIAN ICCS DELEGATION IN NINH HOA SUB-REGIONAL SITE MAY LEAVE.

THE LEVEL OF ACTIVITY IN MR-3 RETURNED TO THE MAY LEVELS BEFORE THE ENEMY SEIZURE OF OP82 AND RACH BAP, NEAR BEN CAT, DUE IN PART TO THE GVN DECISION TO ABANDON THE EFFORT TO RETAKE THESE POSTS BE DIRECT ASSAULT. THIS MARKS THE END OF A PHASE IN THE BEN CAT BATTLES, WHICH FOR THE PAST 45 DAYS HAVE SEEN SOME OF THE MOST CONCENTRATED COMBAT AND THE HEAVIEST CASUALTIES OF ANY ACTION SINCE THE CEASEFIRE. ENEMY ARTILLERY AND MORTAR USAGE WAS DOWN IN MR03 AND RVNAF ARTILLERY USAGE WAS HALVED. CASUALTIES ON BOTH SIDES WERE DOWN. A ROAD BLOCK ON QL-1 IN EASTERN LONG KHANH CONTINUES TO BLOCK TRAFFIC.

ALTHOUGH THE NUMBER OF INCIDENTS REPORTED IN MR-4 THIS WEEK WAS THE LOWEST THIS YEAR, FRIENDLY CASUALTIES WERE UP. DINH TUONG WAS THE SCENE OF THE GREATEST ACTIVITY. A C-119 AIRCRAFT WAS SHOT DOWN IN KIEN TUONG BY AN SA-7 MISSILE.

THERE HAS BEEN NO MEANINGFUL ACTIVITY IN ICCS PLENARIES THIS WEEK.

THE COMMUNIST BOYCOTT OF THE TWO PARTY JOINT MILITARY COMMISSION AND THE FOUR PARTY JOINT MILITARY TEAM PLENARIES CONTINUES. US AND RVN FPJMT DELEGATIONS APPEARED JULY 5 AND JULY 9 FOR SCHEDULED PLENARIES, BUT FOR THE FOURTH AND FIFTH CONSECUTIVE TIMES NO DRV OR "PRG" DELEGATIONS ATTENDED. COLONEL WILLIAM TOMBAUGH, CHIEF, USDEL, FPJMT, DEPARTED SAIGON JULY 8. IN A PRE-DEPARTURE PRESS CONFERENCE JULY 7, COLONEL CONFIDENTIAL

CONFIDENTIAL

PAGE 04 SAIGON 09117 01 OF 04 101242Z

TOMBAUGH EMPHASIZED THE FACT THAT WHILE THE US AND RVN DELEGATIONS CONTINUE TO WORK TOWARD THE HUMANITARIAN GOALS SET FORTH IN ARTICLE 8B OF THE PARIS AGREEMENT CONCERNING THE RETURN OF THE REMAINS OF THE DEAD AND EXCHANGE OF INFORMATION ON THE MISSING, THE COMMUNIST DELEGATIONS CONTINUE TO EMPLOY EVERY DEVISE TO AVOID THEIR RESPONSIBILITIES UNDER THE AGREEMENT.

ON JULY 5 IN HANOI, THE DRV AND THE GOVERNMENT OF FRANCE REACHED AGREEMENT TO REPATRIATE THE REMAINS OF 59 FRENCH UNION TROOPS WHO DIED IN VIETNAM 20 YEARS AGO.

B. DEMOCRACY PARTY AFFAIRS

ON JULY 4 PRESIDENT THIEU MET WITH LEADING DEMOCRACY PARTY (DP) LEGISLATORS AND GOVERNMENT OFFICIALS TO DISCUSS THE

PARTY'S FUTURE. AMONG THOSE ATTENDING WERE SENATE CHAIRMAN TRAN VAN LAM AND THE DP'S SECRETARY GENERAL, TRAN MINH TUNG. THIS WAS THE FIRST FACE-TO-FACE EXPOSITION OF THE PRESIDENT'S VIEWS TO THE DP SAIGON LEADERSHIP SINCE HE DISMISSED PRESIDENTIAL SPECIAL ASSISTANT NGUYEN VAN NGAN IN LATE MAY AND THEN FOLLOWED UP WITH HIS JUNE 19 REMARKS CALLING FOR MILITARY MEN, CIVIL SERVANTS, AND POLICE NOT TO ENGAGE IN PARTY ACTIVITIES (SEE SAIGON 8474). THE DISMISSAL OF NGAN REMOVED FROM THE SCENE THE ARCHITECT OF DEMOCRACY PARTY ORGANIZATION AND THE BUILDER OF THE DP'S LEGISLATIVE BLOC. THIEU'S JUNE 19 DELPHIC PRONOUNCEMENT LEFT MANY DP STALWARTS BEWILDERED AS TO THE PRESIDENT'S INTENTIONS TOWARD HIS OWN PARTY, WHICH HAD BEEN BUILT FROM THE ELEMENTS HE NOW SAID SHOULD NOT ENGAGE IN PARTY ACTIVITIES. THE PRESIDENT'S ACTIONS LEFT THE DP FOR A TIME WITHOUT CENTRAL DIRECTION AND ITS LEGISLATIVE BLOC IN DISARRAY.

IN RECENT TRAVELS TO MR'S 2 AND 3 (SEE SAIGON 8835) THIEU HAS GONE PART OF THE WAY TOWARD DISPELLING THE CNFUSION CAUSED BY HIS REMARKS ON POLITICAL ACTIVITIES BY GOVERNMENT OFFICIALS. CONSULATE GENERAL NHA TRANG REPORTS THAT AFTER THE PRESIDENT'S JUNE 28 VISIT THERE THE MOST WIDELY HELD INTERPRETATION WAS THAT IT IS PEMISSIBLE FOR GOVERNMENT EMPLOYEES TO BELONG TO POLITICAL PARTIES BUT THEIR PARTY DUTIES SHOULD NOT INTERFERE WITH THEIR OFFICIAL DUTIES.

CONFIDENTIAL

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PAGE 01 SAIGON 09117 02 OF 04 101323Z

42

ACTION EA-14

INFO OCT-01 AID-20 EB-11 FSI-01 PM-07 INR-10 IO-14 L-03

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PAGE 02 SAIGON 09117 02 OF 04 101323Z

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C O N F I D E N T I A L SECTION 2 OF 4 SAIGON 9117

A LEADING DP SENATOR WHO WAS NOT PERSONALLY PRESENT AT THE JULY 4 MEETING TOLD EMBASSY OFFICERS JULY 10 THAT IT WAS CHIEFLY A BACKGROUNDER BY THE PRESIDENT DESIGNED TO REASSURE THEM THAT THE DP DOES HAVE A FUTURE. OVER THE NEXT FEW WEEKS AND MONTHS CHANGES WILL BE MADE IN THE DP'S ORGANIZATION TO REFLECT THE ROLE THAT THIEU SEES FOR IT.

COMMENT: THIEU IS STILL FACED WITH THE DILEMMA OF BUILDING A PARTY WITH ENOUGH AUTHORITY TO BE MEANINGFUL, WITHOUT CAUSING A REACTION FROM THE ARMED FORCES WHO SEE THEIR POWER THREATENED BY THE CREATION OF SUCH A PARTY. UNDER NGAN'S LEADERSHIP THE DP WAS PERCEIVED AS A THREAT BY MANY IN THE ARMED FORCES, WHO COMPARED IT TO THE CAN LAO PARTY OF THE DIEM REGIME. OPPOSITION TO WHAT MANY TOP OFFICERS REGARDED AS CAN LAO INTERVENTION IN THE MILITARY SYSTEM OF PROMOTINGS, ASSIGNMENTS, AND PREFERMENTS WAS A CONTRIBUTING

FACTOR TO THE COUP WHICH OVERTHREW DIEM, AND THE CAN LAO EXPERIENCE IS ONE THAT THIEU EVIDENTLY HAS NO DESIRE TO REPEAT.

C. A LEADING MODERATE OPPOSITIONIST COMMENTS

PRESIDENT THIEU'S JUNE 19 SPEECH CALLING FOR SEPARATION BETWEEN THE ARMY AND THE BUREAUCRACY ON THE ONE HAND AND POLITICAL PARTIES ON THE OTHER CONTINUES TO STIR CONFUSION IN NON-GVN ORIENTED SAIGON POLITICAL CIRCLES AS WELL. PROGRESSIVE NATIONAL MOVEMENT LEADER NGUYEN NGOC HUY, WHOSE PARTY IS NOW A COMPONENT OF THE SOCIAL DEMOCRATIC ALLIANCE, WAS ASKED BY AN EMBASSY OFFICER JULY 6 FOR HIS INTERPRETATION OF THE SPEECH. HUY ANSWERED THAT THIS DOES NOT MEAN THE END OF THE DP, SINCE THIEU WILL NEED THE DP NEXT YEAR TO GET ENDORSEMENT TO RUN AS A PRESIDENTIAL CANDIDATE. HUY'S INTERPRETATION OF THE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SAIGON 09117 02 OF 04 101323Z

SPEECH WAS THAT THE PRESIDENT SIMPLY DOESN'T LIKE POLITICAL PARTIES, EVEN HIS OWN. HE PREFERS TO DEAL DIRECTLY WITH THE MILITARY AND THE BUREAUCRACY ON IMPORTANT MATTERS AND TO KEEP POLITICAL PARTIES IN THEIR PLACE, I.E., INSIGNIFICANT. AS FAR AS HUY'S PARTY IS CONCERNED, HUY WAS NOT OPTIMISTIC THAT THE SDA WOULD EVER ACHIEVE ITS PRESENT GOAL OF FULL VALIDATION UNDER DECREE LAW 060 GOVERNING POLITICAL PARTIES.

COMMENT: HUY'S REMARKS ABOVE ABOUT THE SDA'S CHANCES ARE CONSISTENT WITH INFORMATION FROM OTHER SOURCES THAT THE SDA IS STALLED AT PRESENT IN ITS EFFORTS TO QUALIFY AS A POLITICAL PARTY UNDER DL-060. PARTY LEADERS CLAIM THAT THE SDA HAS SUBMITTED ENOUGH DOSSIERS TO QUALIFY NATIONALLY AND VALIDATION NOW DEPENDS ON THE WILLINGNESS OF LOCAL AUTHORITIES TO RELAX THE CURRENT STIFF RESIDENCE CERTIFICATE REQUIREMENT, WHICH SDA LEADERS HOLD IS ARBITRARILY IMPOSED AND DESIGNED TO PREVENT SDA QUALIFICATION. WHETHER THIS IS ACCURATE OR NOT, IT IS APPARENTLY TRUE THAT THE PARTY LEADERSHIP BELIEVES IT CAN MAKE THE GRADE ONLY IF THE CERTIFICATE REQUIREMENT IS EASED. THUS, THE SDA FEELS THE BALL IS IN PRESIDENT THIEU'S COURT EITHER TO RELAX THE REQUIREMENT AND ACCEPT THE SDA, OR TO KEEP IT AND EFFECTIVELY SQUASH THE SDA.

D. THIEU VISITS MR-1

ON JULY 9 PRESIDENT THIEU WAS IN DANANG WHERE HE PRESIDED OVER A CELEBRATION MARKING VETERAN'S DAY. THE PRESIDENT NOTED VETERANS' PAST SERVICE TO THEIR COUNTRY AND PROMISED RENEWED EFFORTS BY THE GOVERNMENT TO HELP THEM ADJUST TO CIVILIAN LIFE AND TO EARN A DECENT LIVELIHOOD. PRESIDENT THIEU, ACCOMPANIED BY A NUMBER OF SENIOR GVN OFFICIALS INCLUDING DEPUTY PRIME MINISTER TRAN VAN DON, DISTRIBUTED WHEEL CHAIRS TO ONE GROUP OF DISABLED VETERANS AND LAND-TITLES, SEEDS

AND FARM IMPLEMENTS TO ANOTHER GROUP OF FORMER SERVICEMEN AND THEIR FAMILIES. WHILE NOT MENTIONED IN OFFICIAL ACCOUNTS OF THE VISIT TO MR-1, IT APPEARS LIKELY THAT PRESIDENT THIEU ALSO TOOK ADVANTAGE OF THE OCCASION TO DISCUSS OTHER MATTERS WITH LOCAL OFFICIALS INCLUDING HIS JUNE 19 STATEMENT ON DEMOCRACY PARTY AFFAIRS, THUS FOLLOWING THE PATTERN ESTABLISHED ON RECENT VISITS TO OTHER MILITARY REGIONS (SEE ABOVE).

E. NGUYEN VAN NGAN TO LEAVE SVN
CONFIDENTIAL

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PAGE 04 SAIGON 09117 02 OF 04 101323Z

FORMER PRESIDENTIAL SPECIAL ASSISTANT NGUYEN VAN NGAN HAS RECEIVED A PASSPORT AND AN EXIT PERMIT GOOD FOR TRAVEL TO CANADA VIA FRANCE AND

THE US. NGAN'S EXIT PERMIT IS VALID UNTIL JULY 13, AND HE HAS APPLIED FOR A US TRANSIT VISA STATING HIS INTENT TO LEAVE JULY 10. HIS PASSPORT IS VALID FOR A STAY ABROAD OF THREE MONTHS AND ONE WEEK. NGAN, ONCE AN INFLUENTIAL ADVISOR TO PRESIDENT THIEU ON LEGISLATIVE MATTERS AND THE DEMOCRACY PARTY, WAS DISMISSED MAY 26 IN A BRIEFLY SENSATIONAL

AFFAIR. ALTHOUGH STILL A GOVERNMENT EMPLOYEE (CIVIL SERVANT), NGAN HAS NOT BEEN ASSIGNED ANY NEW JOB NOR HAS HE ATTENDING DP MEETINGS AND HIS DEPARTURE PROBABLY SIGNALS AN END TO NGAN'S ACTIVE ROLE IN DP PARTY POLITICS FOR THE FORESEEABLE FUTURE.

F. MUNICIPAL/PROVINCIAL COUNCIL ELECTIONS JULY 14

MUNICIPAL AND PROVINCIAL COUNCIL ELECTIONS WILL BE HELD THIS SUNDAY, JULY 14. PREPARATIONS FOR THE ELECTIONS HAVE GONE SMOOTHLY. ALTHOUGH THE ELCTIONS HAVE NOT GENERATED GREAT INTEREST, TURNOUT IS EXPECTED TO BE GOOD. IN SAIGON A SMALL AMOUNT OF HEAT HAS BEEN GENERA

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TED OVER PROTESTS BY SOME CANDIDATES THAT THEIR ELECTION POSTERS HAVE BEEN DEFACED, AND ONE DISTRICT CHIEF HAS BEEN ACCUSED OF LAXITY/ COMPLICITY IN THIS CONNECTION. THESE PROTESTS HAVE BEEN WIDZLY REPORTED IN THE PRESS. THERE IS SOME EXPECTATION THAT THE COMMUNISTS MAY STAGE A "HIGH POINT" THIS WEEKEND IN AN ATTEMPT TO DISRUPT THE ELECTIONS, AND SPECIAL SECURITY MEASURES HAVE BEEN PLANNED BY GVN OFFICIALS ACROSS THE COUNTRY.

G. ANTI-GVN "VATICAN REPORT" BY CATHOLIC PRIEST APPARENTLY A FAKE

A DOCUMENT HAS BEEN CIRCULATING IN SAIGON THAT PURPORTS TO BE A REPORT TO THE VATICAN BY A BENEDICTINE PRIEST NAMED FATHER LEVI ORIEL BROQETO, WHO CLAIMS IN THE REPORT THAT HE RECENTLY SPENT TWO MONTHS TOURING SOUTH VIETNAM AND WAS RECEIVED BY SEVERAL PROMINENT

PERSONALITIES INCLUDING PRESIDENT THIEU. THE REPORT HAS BEEN TERMED
AS A RESPONSE TO A "VATICAN" INTEREST. THE REPORT IS EXTREMELY
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PAGE 05 SAIGON 09117 02 OF 04 101323Z

CRITICAL OF THE GVN AND EVEN OF SOME SOUTH VIETNAMESE CATHOLICS. IT
USED INTEMPERATE LANGUAGE LIKE "THIEU AND HIS CLIQUE" TO DESCRIBE THE
GOVERNMENT. THE DOCUMENT HAS COME TO THE NOTICE OF THE SAIGON PRESS,
WHICH HAS MADE BRIEF REFERENCES TO IT.

AN EMBASSY OFFICER CALLED JULY 8 AT THE APOSTOLIC DELEGATION
IN SAIGON TO CHECK ON THE AUTHENTICITY OF THE REPORT. THE DELE-
GATION'S RESPONSE MAKES IT ALL BUT CERTAIN THAT THE DOCUMENT IS A
FAKE. THE DELEGATION WAS ITSELF TRYING TO ASCERTAIN THE SOURCE, AND
ALTHOUGH IT COULD NOT FORECLOSE THE POSSIBILITY THAT A FATHER LEVI
ORIEL BROQUETO HAD INDEED VISITED SOUTH VIETNAM AND WRITTEN THE REPORT

,
IT KNEW NOTHING ABOUT HIM AND HAD FOUND NO REFERENCE TO HIM (OR TO
SIMILARLY SPELLED NAMES) IN BENEDICTINE REGISTRIES. THE PROTOCOL
OFFICE AT THE PRESIDENCY HAD INFORMED THE DELEGATION THAT
NO SUCH PERSON HAD CALLED ON PRESIDENT THIEU. THE STYLE OF THE
DOCUMENT, THE DELEGATION STRESSED, IS ALIEN TO REPORTING PRACTICE AT
THE VATICAN. THE DELEGATION HAD NOT, HOWEVER, MADE ANY FORMAL
DEMARCHÉ TO THE GVN ABOUT THE INCIDENT, BECAUSE IT BELIEVES THE
FALSITY OF THE DOCUMENT WILL BE SELF-EVIDENT TO THE GOVERNMENT. THE
DELEGATION DID NOT ATTACH GREAT IMPORTANCE TO THE MATTER.

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PAGE 01 SAIGON 09117 03 OF 04 101338Z

42

ACTION EA-14

INFO OCT-01 AID-20 EB-11 FSI-01 PM-07 INR-10 IO-14 L-03

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PAGE 02 SAIGON 09117 03 OF 04 101338Z

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C O N F I D E N T I A L SECTION 3 OF 4 SAIGON 9117

THE SOURCE AND MOTIVE OF THE REPORT ARE A MYSTERY. SEVERAL POSSIBILITIES COME TO MIND. THERE IS CURRENTLY SOMETHING OF AN ANTI-CORRUPTION "MOVEMENT" IN CERTAIN CATHOLIC CIRCLES (SEE SAIGON 8084 I.II.). IT MAY BE AN ATTEMPT BY SOME GROUP (LIKE THE VC) TO MAKE POLITICAL CAPITAL OUT OF THE RECENT CATHOLIC ANTI-CORRUPTION AGITATION. IT COULD BE A PLANT BY A PRO-GVN SOURCE WHO WISHED TO DISCREDIT THE CATHOLIC AGITATORS BY CIRCULATING AN OBVIOUSLY SPURIOUS DOCUMENT.

H. SOME MONTAGNARD DISSIDENCE REPORTED

CONSULATE GENERAL NHA TRANG HAS REPORTED INDICATIONS OF A RECENT RESURGENCE OF DISSIDENCE AMONG SOME MONTAGNARD ELEMENTS, ESPECIALLY IN THE PROVINCE OF DARLAC. THE SELF-APPOINTED LEADER OF THE MOVEMENT, KPA KOI, CLAIMS TO REPRESENT THE FULRO ORGANIZATION WHICH RALLIED A NUMBER OF ARMED MONTAGNARDS IN THE EARLY AND MID-1960'S. WHETHER KPA KOI SPEAKS FOR THE INFLUENTIAL FORMER FULRO LEADER L BHAM ENOUL IS NOT KNOWN, AND WHETHER INDEED HE REPRESENTS ANY MEANINGFUL NUMBER OF MONTAGNARDS IS UNCLEAR. HOWEVER, KPA KOI HAS REPORTEDLY REACHED AN ACCOMMODATION OF SOME SORT WITH THE COMMUNISTS AND THIS IS NATURALLY A MATTER OF CONCERN TO GVN AUTHORITIES. IT IS TOO EARLY TO ASSESS THE SIGNIFICANCE OF KPA KOI AND HIS FOLLOWERS, BUT GVN OFFICIALS IN MR-2 ARE FOLLOWING THE SITUATION CLOSELY.

I. SOME HOA HAO RADICALS CONTINUE TO HOLD OUT OVER ARMS ISSUE

CONSULATE GENERAL CAN THO REPORTS THAT HOA HAO FACTION LEADER LUONG TRONG TUONG HAS NOT YET MADE GOOD ON HIS JUNE 21 PROMISE TO PRESIDENT THIEU TO TURN IN THE WEAPONS BELONGING TO HIS SELF-SYLED "HOA HAO SELF DEFENSE FORCE." (SEE SAIGON 8835 AND PREVIOUS.) TUONG AND THIEU HAD APPARENTLY REACHED A COMPROMISE ON MOST IF NOT ALL OF TUONG'S "SEVEN DEMANDS." WITH REGARD TO THE MOST SENSITIVE ISSUE -- CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SAIGON 09117 03 OF 04 101338Z

THAT OF ARMS FOR THE "SELF DEFENSE FORCE" -- TUONG HAD REPORTEDLY AGREED TO DISARM THE SDF IN RETURN FOR A PROMISE TO PROVIDE OTHER ARMS FOR A BODYGUARD WHICH WOULD ENJOY OFFICIAL RECOGNITION. CONSULATE

GENERAL CAN THO REPORTS HOWEVER THAT IT APPEARS THAT TUONG HAS BEEN UNABLE TO SELL THE CAN THO UNDERSTANDING TO SOME OF HIS MORE RADICAL FOLLOWERS IN AN GIANG. THESE MILITANT ELEMENTS HEADED BY HAI TAP, SDF CHIEF, ARE SAID TO BE HOLDING TUONG VIRTUALLY A PRISONER IN THE TAY AN PAGODA AREA. THE ARMS ISSUE IS THEREFORE AS YET UNRESOLVED, AND TUONG MAY NOT BE AS SECURELY IN CONTROL OF HIS HOA HAO FACTION AS HE ONCE WAS.

J. "MARTELL CONVOY" TRIAL CONCLUDES

THE "MARTELL CONVOY" SMUGGLING TRIAL RE-OPENED JULY 1 IN THE MR-
3
MILITARY FIELD COURT, AFTER RECESSING TO AWAIT A DECISION FROM THE SUPREME COURT ON A CONSTITUTIONAL ISSUE RAISED BY DEFENSE COUNSEL. (THE SUPREME COURT RULED AGAINST THE DEFENSE JUNE 12. SEE SAIGON 8084, ITEM I. K. AND PREVIOUS.) AFTER LENGTHY HEARINGS, THE TRIAL CONCLUDED IN THE EARLY MORNING HOURS JULY 4 WHEN SENTENCES WERE HANDED DOWN. TWO DEATH SENTENCES WERE METED OUT, ONE AGAINST A DEFENDANT WHO IS STILL AT LARGE AND THE OTHER AGAINST TRAN GOAT, CAPTURED IN SVN AFTER ATTEMPTING TO HIDE FROM POLICE. LIFE IMPRISONMENT WAS GIVEN TO FUR DEFENDANTS, INCLUDING TRUONG HONG WHO WAS RECENTLY TURNED OVER TO THE GVN BY THE HONG KONG AUTHORITIES (SEE

SAIGON 8835; ITEM I. C.). TWENTY-YEAR SENTENCES AT HARD LABOR WERE HANDED DOWN AGAINST THE MILITARY POLICE CAPTAIN INVOLVED IN THE ILL-FATED CONVOY AND THE TWO DISTRICT CHIEFS IN DINH TUONG PROVINCE WHOM THE GOVERNMENT INVESTIGATION HAD IMPLICATED. ONE CIVILIAN GOT A FIFTEEN-YEAR SENTENCE. OTHER MILITARY AND CIVILIAN DEFENDANTS RECEIVED SHORTER PRISON TERMS. THREE RECEIVED SUSPENDED SENTENCES AND FIVE WERE ACQUITTED.

K. MR-1 STAFF POSITION CHANGES

BETWEEN JUNE 28 AND JULY 2 LTG NGO QUANG TRUONG ROTATED THE CHIEFS OF STAFF OF MR-1 BASED ARVN DIVISIONS. COLONEL NGUYEN KHOA BAO, WHO HAS EARNED A GOOD REPUTATION AS CHIEF OF STAFF OF THE 3RD DIVISION, WAS TRANSFERRED TO THE SAME POSITION IN THE 2ND DIVISION WITH THE HOPE THAT HE WILL
CONFIDENTIAL

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PAGE 04 SAIGON 09117 03 OF 04 101338Z

IMPROVE THAT UNIT'S WEAK STAFF PROCEDURES. COLONEL NGUYEN HUAN, MOVED FROM THE 1ST TO THE 3RD DIVISION, ALLEGEDLY DUE TO INVOLVEMENT IN "FLOWER" SOLDIER ACTIVITIES. THIS MOVE PLACES HIM UNDER THE WATCHFUL EYE OF THE 3RD DIVISION'S STRONG COMMANDER, MAJOR GENERAL NGUYEN DUY HINH. COLONEL NGO VAN LOI WAS REMOVED FROM HIS PREVIOUS POSITION AS CHIEF OF STAFF OF THE 2ND DIVISION AND PLACED IN THAT CAPACITY IN THE 1ST DIVISION, REPORTEDLY TO SEPARATE HIM FROM HIS "INVOLVEMENT" WITH QUANG NGAI BUSINESSMAN (LOI WAS PREVIOUSLY CHIEF OF QUANG NGAI PROVINCE).

CONSULATE GENERAL DANANG REPORTS ANOTHER STAFF SWITCH IS IN THE OFFING: COL. HAI MAI VIET, CURRENTLY I CORPS HQ G-3 (CHIEF OF STAFF FOR OPERATIONS) WILL SHORTLY BE REPLACED BY COL. NGUYEN NGOC NGHIA. COL. NGHIA HAD PREVIOUSLY HELD A POSITION WITH THE 2ND DIVISION. COL. VIET REPORTEDLY WILL ATTEND A FOUR MONTH RVNAF TRAINING COURSE IN SAIGON.

II. EXTERNAL

A. GVN REACTION TO US-USSR COMMUNIQUE

ASKED TO COMMENT ON THE US-USSR JOINT COMMUNIQUE OF JULY 3, GVN SPOKESMAN MULY 5 EXPRESSED MILD SURPRISE THAT PASSAGE IN COMMUNIQUE ON VIETNAM GAVE THE IMPRESSION THAT THE TWO PARTIES CONSIDERED THE VIETNAM WAR AS HAVING ENDED. SPOKESMAN WENT ON TO SAY RVN WAS DETERMINED TO HOLD FAST TO ITS POLICY OF RESPECTING THE TERMS OF THE PARIS AGREEMENT, AND ADDED THAT IMPLEMENTATION OF THE AGREEMENT WAS DIFFICULT BECAUSE OF CONTINUED COMMUNIST INFILTRATION AND WIDESPREAD ATTACKS, AND BECAUSE THE COMMUNIST SIDE HAD INTERRUPTED ALL NEGOTIATIONS.

B. TRAVELS OF THE FOREIGN MINISTER

FOREIGN MINISTER VUONG VAN BAC ARRIVED IN CHILE JULY 8
FOR MEETINGS WITH GOVERNMENT OFFICIALS, AND IS SCHEDULED TO
GO ON TO URUGUAY JULY 12.

C. GVN RELEASES THAI FISHERMEN

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PAGE 05 SAIGON 09117 03 OF 04 101338Z

MFA SPOKESMAN ANNOUNCED JULY 6 THAT GVN HAD RELEASED SIX
THAI TRAWLERS AND 110 CREWMEN THAT HAD BEEN DETAINED FOR
VIOLATING SOUTH VIETNAM'S CLAIMED FISHING ZONE. SPOKESMAN
SAID ACTION WAS FRIENDLY GESTURE FOLLOWING RECENT VISIT TO
SAIGON OF A THAI DELEGATION TO DISCUSS THE FISHING DISPUTE
BETWEEN THE TWO COUNTRIES.

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PAGE 01 SAIGON 09117 04 OF 04 101405Z

41

ACTION EA-14

INFO OCT-01 AID-20 EB-11 FSI-01 PM-07 INR-10 IO-14 L-03

NSAE-00 NSC-07 PA-04 RSC-01 DRC-01 DPW-01 PRS-01

OMB-01 SS-20 SSO-00 INRE-00 ISO-00 /117 W

----- 069356

O R 101033Z JUL 74

FM AMEMBASSY SAIGON

TO SECSTATE WASHDC IMMEDIATE 6627

INFO AMEMBASSY BANGKOK

AMCONSUL BIEN HOA

AMEMBASSY BUDAPEST

AMEMBASSY CANBERRA

AMCONSUL CAN THO

AMCONSUL DANANG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMCONSUL NHA TRANG
AMEMBASSY PARIS
AMEMBASSY PHNOM PENH
AMEMBASSY SEOUL
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
USIA WASHDC
AMEMBASSY VIENTIANE
AMEMBASSY WARSAW
AMEMBASSY WELLINGTON
USDEL JEC PARIS UNN
CIA
DIA
JCS
JUSMAAG
WHITE HOUSE
USAJFKCMA
CINCPAC
CINCPACAF
CO 7 PSYOPS GP
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PAGE 02 SAIGON 09117 04 OF 04 101405Z

CINCPACFLT
CINCUSARPAC
DEPCHIEF JUSMAAG UDORN
AMEMBASFY TEHRAN
USDAO/SAIGON
AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 4 OF 4 SAIGON 9117

D. NEW RVN EMBASSIES ESTABLISHED IN SAUDI ARABIA AND
JORDAN

THE NEWLY-APPOINTED RVN AMBASSADOR TO SAUDI ARABIA, NGUYEN
PHUOC DON, LEFT SAIGON FOR HIS POST JULY 4. RECENTLY THE NEW
AMBASSADOR TO JORDAN, NGHIEM MY, ARRIVED IN AMMAN FROM HIS
PREVIOUS POST AS CHARGE IN TEHRAN. THESE TWO NEW RVN
EMBASSIES IN ARAB COUNTRIES JOIN THOSE ALREADY LONG ESTABLISHED
IN MOROCCO AND TUNISIA.

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BEGIN UNCLASSIFIED

III. ECONOMIC

A. MILD PRICE EFFECT OF ECONOMIC MEASURES

EXCEPT FOR SUGAR, REACTION WAS MILD IN THE CONSUMER MARKET
FOLLOWING ANNOUNCEMENT JULY 1 OF MAJOR ECONOMIC MEASURES. USAID'S
RETAIL PRICE INDEX ROSE 1 PERCENT AS OF JULY 8, BUT MOST OF THAT
GAIN WAS DUE TO A 20 PERCENT INCREASE IN THE SUGAR PRICE, TO THE

EQUIVALENT OF US\$0.93/KILO.

LAST WEEK THE GOVERNMENT, WHICH CONTROLS NATIONAL SUGAR STOCKS, DECLARED IT WOULD CEASE SELLING IMPORTED SUGAR TO HOUSEHOLDS. INDUSTRIAL USERS REMAIN ELIGIBLE TO PURCHASE FROM GOVERNMENT IMPORT STOCKS, WHICH WILL BE DRAWN DOWN OVER THE NEXT TWO YEARS. THE GOVERNMENT HAS ALSO DECIDED TO HALT FURTHER SUGAR IMPORTS. OVER A TWO YEAR PERIOD, THE GOVERNMENT HAS SHARPLY REDUCED SUGAR CONSUMPTION BY RAISING SUGAR PRICES. THE LATEST STEP CUTTING RETAIL SALES OF IMPORTED SUGAR REFLECTS THE GOVERNMENT'S PRESSING NEED TO CONSERVE SCARCE FOREIGN EXCHANGE. IT WILL ALSO HELP REVIVE DOMESTIC SUGAR CANE PRODUCTION, WHICH HAD BEEN GREATLY REDUCED DURING THE HEIGHT OF THE WAR.

FOR THE SIXTH SUCCESSIVE WEEK RICE PRICES INCHED UP. THIS
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PAGE 03 SAIGON 09117 04 OF 04 101405Z

WEEK'S GAIN OF 1 PERCENT PUT DOMESTIC RICE PRICES SLIGHTLY ABOVE THE OFFICIAL IMPORTED LEVEL, WHICH WAS ALSO RAISED LAST WEEK.

B. DEVALUATION

CAPPING LAST WEEK'S PACKAGE OF ECONOMIC MEASURES, THE GOVERNMENT ON JULY 5 ADJUSTED THE OFFICIAL EXCHANGE RATE, VN\$620/\$1 TO VN\$630/\$1. THE CIP REBATE REMAINS VN\$60/\$1. IT WAS THE SIXTH RATE CHANGE OF THE YEAR, MAKING A CUMULATIVE DEVALUATION OF 15 PERCENT SINCE JAN 1. UNTIL LAST WEEK, THE GOVERNMENT HAD NOT MOVED THE RATE FOR OVER TWO MONTHS; A BLACK MARKET DOLLAR PREMIUM RECENTLY REAPPEARED AMID RUMORS THAT A MAJOR ADJUSTMENT WAS IMMINENT. THE VN\$10 DEVALUATION HAD THE EFFECT OF REAFFIRMING THE GOVERNMENT'S FLEXIBLE EXCHANGE RATE POLICY CONSISTING OF PERIODIC SMALL ADJUSTMENTS.

C. BLACK MARKET DOLLAR PREMIUM HOLDS

BLACK MARKET DOLLAR RATES MOVED ALMOST IN TANDEM WITH LAST WEEK'S OFFICIAL DEVALUATION, PRESERVING A PREMIUM THAT HAS BEEN OFFERED SINCE MID-JUNE. US\$100 GREEN FETCHED VN\$644/\$1, COMPARED TO VN\$638 THE PREVIOUS WEEK. MEANWHILE, GOLD PRICES DROPPED FROM THE DOLLAR EQUIVALENT OF \$145.82/TROY OUNCE TO \$139.55. A SIMILAR DOWNTURN WAS OBSERVED IN HONG KONG GOLD QUOTES.

D. FIRST HALF PRICE TRENDS

USAID'S RETAIL PRICE INDEX INCREASED 28.5 PERCENT DURING THE FIRST SIX MONTHS OF 1974. OVER THE SAME PERIOD IN 1973, THE INDEX INCREASED 23.7 PERCENT. THIS YEAR, POL WAS THE MOST IMPORTANT SINGLE FACTOR BEHIND THE FIRST HALF PRICE INCREASE. IN LATE JANUARY, THE GOVERNMENT ANNOUNCED DRASTIC INCREASES IN PRICES OF POL PRODUCTS, RANGING FROM 66-140 PERCENT. BY THE TIME THESE INCREASES HAD WORKED THEIR WAY THROUGH THE ECONOMY, FORCING ADJUSTMENT IN PRICES OF MOST OTHER COMMODITIES, THE USAID INDEX RECORDED A 20.9 PERCENT FIRST QUARTER GAIN. WITH NO MAJOR EXTERNALLY-CAUSED PRICE RISE IN THE SECOND QUARTER, AND WITH MARKET DEMAND CONTINUING TO BE SLUGGISH, THE

AVERAGE PRICE RISE DURING APRIL-JUNE WAS A MORE MODEST 6.3 PERCENT.

IN THE FIRST SIX MONTHS OF 1974. PETROLEUM-RELATED PRICE INCREASES WERE RESPONSIBLE FOR 38 PERCENT OF THE INDEX INCREASE. NEXT IN IMPORTANCE WERE ANIMAL PROTEINS, BEEF AND PORK, WHICH TOGETHER ACCOUNTED FOR 16 PERCENT. RICE, THE MOST HEAVILY WEIGHTED SINGLE ITEM, WAS STABLE IN THE FIRST QUARTER THANKS TO A BUMPER CROP, CONFIDENTIAL

CONFIDENTIAL

PAGE 04 SAIGON 09117 04 OF 04 101405Z

THUS PREVENTING AN EVEN SHARPER RISE IN THE OVERALL INDEX EARLY IN THE YEAR. IN APRIL, RICE PRICES BEGAN INCHING UP AND BY JUNE 30 HAD RISEN 14 PERCENT.

FOOD PRICES ADVANCED 22 PERCENT ON THE AVERAGE FROM JAN-JUNE, WHILE THE NON-FOOD CATEGORY WAS UP 42 PERCENT. PAST YEARS' EXPERIENCE SUGGESTS AN ACCELERATION OF FOOD PRICE INCREASES IN THE THIRD QUARTER. THIS YEAR THAT TREND MAY BE REINFORCED BY THE AVERAGE 25 PERCENT WAGE BOOST WHICH GOVERNMENT EMPLOYEES RECEIVED JULY 1. LEHMANN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TREATY VIOLATION, ELECTION RESULTS, ECONOMIC CONDITIONS, MISSION WEEKLY, POLITICAL SITUATION, COMBAT ZONES, VISITS, DEVALUATIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: blochd0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SAIGON09117
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740183-0591
From: SAIGON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740761/aaaacabu.tel
Line Count: 785
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUN 2005
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2002 by shawdg>; APPROVED <25 FEB 2003 by shawdg>; WITHDRAWN <13 Jun 2005 by BoyleJA, PRIVACY>; RELEASED <17 JUN 2005 by powellba2>; APPROVED <20 JUN 2005 by blochd0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EMBASSY SAIGON'S MISSION WEEKLY, JULY 4-10, 1974 BANGKOK ALSO PASS OSA; DEPT ALSO FOR AID/W; CINCPAC FOR POLAD;
TAGS: PINT, PFOR, ECON, VS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005